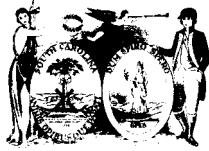


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

March 7, 2003

Mr. Dennis Lofe, Chief Executive Officer
Wilson Group, Inc.
116 Cashua Drive
Darlington, South Carolina 29532

Re: AC# 3-MMC-J9 – Oakhaven, Inc. d/b/a Morrell Memorial Convalescent Center

Dear Mr. Lofe:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract periods beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes

**OAKHAVEN, INC. D/B/A
MORRELL MEMORIAL CONVALESCENT CENTER
HARTSVILLE, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2000
AC# 3-MMC-J9**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 28, 2002

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Oakhaven, Inc. d/b/a Morrell Memorial Convalescent Center, for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of Oakhaven, Inc. d/b/a Morrell Memorial Convalescent Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

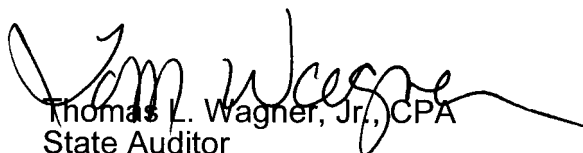
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Oakhaven, Inc. d/b/a Morrell Memorial Convalescent Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Oakhaven, Inc. d/b/a Morrell Memorial Convalescent Center dated as of June 1, 1996 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
February 28, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

MORRELL MEMORIAL CONVALESCENT CENTER

Computation of Rate Change
For the Contract Periods
Beginning October 1, 2000
AC# 3-MMC-J9

| | 10/01/00- <u>09/30/01</u> |
|--------------------------------|------------------------------|
| Interim Reimbursement Rate (1) | \$91.42 |
| Adjusted Reimbursement Rate | <u>88.98</u> |
| Decrease in Reimbursement Rate | \$ <u><u>2.44</u></u> |

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

MORRELL MEMORIAL CONVALESCENT CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2000 Through September 30, 2001
AC# 3-MMC-J9

| | <u>Incentives</u> | <u>Allowable Cost</u> | <u>Cost Standard</u> | <u>Computed Rate</u> |
|--|-------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u> | | | | |
| General Services | | \$41.32 | \$54.01 | |
| Dietary | | 9.93 | 10.12 | |
| Laundry/Housekeeping/Maintenance | | <u>8.42</u> | <u>8.88</u> | |
| Subtotal | <u>\$5.11</u> | 59.67 | 73.01 | \$59.67 |
| Administration & Medical Records | <u>\$3.34</u> | <u>7.21</u> | <u>10.55</u> | <u>7.21</u> |
| Subtotal | | 66.88 | <u>\$83.56</u> | 66.88 |
| <u>Costs Not Subject to Standards:</u> | | | | |
| Utilities | | 2.04 | | 2.04 |
| Special Services | | .04 | | .04 |
| Medical Supplies & Oxygen | | 5.06 | | 5.06 |
| Taxes and Insurance | | .99 | | .99 |
| Legal Fees | | <u>.02</u> | | <u>.02</u> |
| TOTAL | | <u>\$75.03</u> | | 75.03 |
| Inflation Factor (3.20%) | | | | 2.40 |
| Cost of Capital | | | | 9.07 |
| Cost of Capital Limitation | | | | (1.28) |
| Profit Incentive (Max. 3.5% of Allowable Cost) | | | | 2.63 |
| Cost Incentive | | | | 5.11 |
| Effect of \$1.75 Cap on Cost/Profit Incentives | | | | (5.99) |
| Nurse Aide Staffing Add-On 10/01/00 | | | | 1.66 |
| Nurse Aide Staffing Add-on 10/01/99 | | | | <u>.35</u> |
| ADJUSTED REIMBURSEMENT RATE | | | | <u>\$88.98</u> |

MORRELL MEMORIAL CONVALESCENT CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-MMC-J9

| <u>Expenses</u> | Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u> | Adjustments | | <u>Adjusted Totals</u> |
|-------------------------------------|--|---------------------------------|---------------------------------|----------------------------|
| | | <u>Debit</u> | <u>Credit</u> | |
| General Services | \$2,159,859 | \$ 544 (1) | \$ 199 (8) | \$2,160,204 |
| Dietary | 507,091 | 12,062 (3) | - | 519,153 |
| Laundry | 62,682 | - | - | 62,682 |
| Housekeeping | 272,339 | 26 (6) | - | 272,365 |
| Maintenance | 143,631 | - | 38,432 (6) | 105,199 |
| Administration & Medical Records | 395,988 | 17 (6) | 19,210 (6) | 376,795 |
| Utilities | 106,532 | 58 (6) | - | 106,590 |
| Special Services | 2,118 | - | - | 2,118 |
| Medical Supplies & Oxygen | 344,223 | - | 19,425 (3) 60,160 (4) | 264,638 |
| Taxes and Insurance | 51,770 | 113 (6) | - | 51,883 |
| Legal Fees | 7 | 1,247 (6) | - | 1,254 |
| Cost of Capital | 544,210 | 14,937 (5) <u>20,679 (7)</u> | 102,324 (1) <u>3,424 (6)</u> | 474,078 |
| Subtotal | 4,590,450 | 49,683 | 243,174 | 4,396,959 |

MORRELL MEMORIAL CONVALESCENT CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-MMC-J9

| <u>Expenses</u> | Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u> | Adjustments <u>Debit</u> | <u>Credit</u> | <u>Adjusted Totals</u> |
|-----------------------------|--|---|--------------------------|----------------------------|
| Ancillary | 19,805 | - | - | 19,805 |
| Non-Allowable | (14,943) | 7,363 (3) 60,160 (4) 59,605 (6) <u>199 (8)</u> | 14,937 (5) 20,679 (7) | 76,768 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Operating Expenses | \$ <u>4,595,312</u> | \$ <u>177,010</u> | \$ <u>278,790</u> | \$ <u>4,493,532</u> |
| Total Patient Days | <u>52,278</u> | <u>-</u> | <u>-</u> | <u>52,278</u> |
| Total Beds | <u>148</u> | | | |

MORRELL MEMORIAL CONVALESCENT CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-MMC-J9

| <u>ADJUSTMENT NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|---|--------------|---------------|
| 1 | Restorative | \$ 544 | |
| | Other Equity | 2,028,437 | |
| | Accumulated Depreciation | | \$ 582,084 |
| | Fixed Assets | | 1,344,573 |
| | Cost of Capital | | 102,324 |
| | To adjust fixed assets and related depreciation expense HIM-15-1, Section 2300 State Plan, Attachment 4.19D | | |
| 2 | Nonallowable | 199 | |
| | Restorative | | 199 |
| | To remove expenses not adequately documented HIM-15-1, Section 2304 | | |
| 3 | Nonallowable | 7,363 | |
| | Dietary | 12,062 | |
| | Medical Supplies | | 19,425 |
| | To reclassify tube feeding cost to the proper cost center HIM-15-1, Section 2300 State Plan, Attachment 4.19D | | |
| 4 | Nonallowable | 60,160 | |
| | Medical Supplies | | 60,160 |
| | To remove expenses not adequately documented HIM-15-1, Section 2304 | | |
| 5 | Cost of Capital | 14,937 | |
| | Nonallowable | | 14,937 |
| | To record organization cost amortization expense HIM-15-1, Section 2300 State Plan, Attachment 4.19D | | |

MORRELL MEMORIAL CONVALESCENT CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-MMC-J9

| <u>ADJUSTMENT NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|----------------------------------|--------------------|--------------------|
| 6 | Nonallowable | 59,605 | |
| | Housekeeping | 26 | |
| | Legal | 1,247 | |
| | Medical Records | 17 | |
| | Utilities | 58 | |
| | Taxes and Insurance | 113 | |
| | Maintenance | | 38,432 |
| | Administration | | 19,210 |
| | Cost of Capital | | 3,424 |
| | To adjust home office allocation | | |
| | HIM-15-1, Sections 2150 | | |
| | State Plan, Attachment 4.19D | | |
| 7 | Cost of Capital | 20,679 | |
| | Nonallowable | | 20,679 |
| | To adjust capital return | | |
| | State Plan, Attachment 4.19D | | |
| | | <hr/> | <hr/> |
| | TOTAL ADJUSTMENTS | <u>\$2,205,447</u> | <u>\$2,205,447</u> |

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MORRELL MEMORIAL CONVALESCENT CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-MMC-J9

| | |
|--|-----------------------|
| Original Asset Cost (Per Bed) | \$ 15,618 |
| Inflation Adjustment | <u>2.3156</u> |
| Deemed Asset Value (Per Bed) | 36,165 |
| Number of Beds | <u>148</u> |
| Deemed Asset Value | 5,352,420 |
| Improvements Since 1981 | 1,463,262 |
| Accumulated Depreciation at 09/30/99 | <u>(1,177,315)</u> |
| Deemed Depreciated Value | 5,638,367 |
| Market Rate of Return | <u>.060</u> |
| Total Annual Return | 338,302 |
| Return Applicable to Non-Reimbursable Cost Centers | - |
| Allocation of Interest to Non-Reimbursable Cost Centers | <u>-</u> |
| Allowable Annual Return | 338,302 |
| Depreciation Expense | 120,839 |
| Amortization Expense | 14,937 |
| Capital Related Income Offsets | - |
| Allocation of Capital Expenses to Non-Reimbursable Cost Centers | <u>-</u> |
| Allowable Cost of Capital Expense | 474,078 |
| Total Patient Days (Minimum 96% Occupancy) | <u>52,278</u> |
| Cost of Capital Per Diem | \$ <u><u>9.07</u></u> |

MORRELL MEMORIAL CONVALESCENT CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-MMC-J9

| | |
|--|------------------|
| 6/30/89 Cost of Capital and Return on Equity | |
| Capital Per Diem Reimbursement | \$ 3.80 |
| Adjustment for Maximum Increase | <u>3.99</u> |
| Maximum Cost of Capital Per Diem | \$ <u>7.79</u> |
| Reimbursable Cost of Capital Per Diem | \$ 7.79 |
| Cost of Capital Per Diem | <u>9.07</u> |
| Cost of Capital Per Diem Limitation | \$ <u>(1.28)</u> |

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